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MANUFACTURERS HANOVER

Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

The Oil Deficit Widens

As it the problems associated with acres of vacant commercial real estate, financially-hobbled savings and loan institutions, ailing retailers and seemingly intractible Federal budget and foreign trade deficits weren't sufficient to give even the most well-conditioned policymaker heartburn, to this list must now be added a growing domestic oil deficit which promises ever greater reliance upon foreign petroleum. As with the others, this problem is not easily remedied. However, there is a silver lining in this cloud. With the economy becoming decidedly more energy efficient in recent years, and the avenues for further conservation gains far from exhausted, any dislocations caused by unanticipated oil price "shocks" in the coming decade should be more readily manageable than they were in the past.

To be sure, the trends underpinning the current concern over the oil outlook have been building (or deteriorating, depending upon one's point of view) for years. But the energy awareness of policymakers, consumers and media alike was recently galvanized by the one-two punch of a sharp upturn in home heating oil prices in the wake of December's record cold snap, and a widely-publicized report that domestic oil production skidded to a 26-year low in 1989. While the price runup sparked the more immediate concern, it is the prospect of ever-larger declines in domestic oil production which promises the longer-term woes.

It is, and has been, on the supply side of the oil ledger that the darkest news resides—and last year was no exception. According to the American Petroleum Institute, domestic oil production posted its largest single-year decline ever in 1989, skidding 6.8 percent compared with year-earlier production levels, to just under 7.6 million barrels per day. This marked the lowest daily extraction rate since 1963. Although one quarter of the decline was attributed to diminished Alaskan output, which experienced temporary disruptions due to long-scheduled pipeline maintenance and the offshore oil spill, it would be a mistake to consider 1989 a fluke. Last year marked the fourth year in a row that domestic oil production declined, bringing the cumulative drop in average daily output since 1985 to a shade more than 15 percent.

One Casualty And One Beneficiary

The decline in domestic production has produced two developments: It has prompted a surge in oil imports, which has masked a significant improvement in the nonoil merchandise trade balance, and it has touched off an upswing in the pace of new exploration. Plainly, the import surge has been more noticeable. Imports of crude oil and finished petroleum products jumped 8.2 percent in 1989 compared with year-earlier levels, to 7.9 million barrels daily. At this level, imports met nearly 47 percent of total demand; only in 1977 did imports satisfy a larger chunk of domestic demand, but not much more—48 percent. Not surprisingly, the trade balance has been a principal casualty. During the first 11 months of last year, the trade deficit totaled $101.7 billion, down only slightly from the $108.8 billion red ink posted during the same months of 1988. But, when the burgeoning oil import bill is stripped away, a far brighter trade picture emerges. Rather than confirming the popular misconception that trade balance progress has stalled, it reveals that the nonoil trade deficit, where price and quality count, was actually trimmed by a hefty

PASSENGER CAR EFFICIENCY

Year	Average Miles Traveled Per Auto	Average Number of Gallons Consumed per Auto	Average Miles Traveled Per Gallon
1970	10,272	760	13.5
1971	10,422	770	13.5
1972	10,521	785	13.4
1973	10,256	771	13.3
1974	9,606	716	13.4
1975	9,690	716	13.5
1976	9,785	723	13.5
1977	9,879	716	13.8
1978	9,835	701	14.0
1979	9,403	653	14.4
1980	9,141	591	15.5
1981	9,186	576	15.9
1982	9,428	566	16.7
1983	9,475	553	17.1
1984	9,558	536	17.8
1985	9,560	523	18.2
1986	9,608	526	18.3
1987	9,878	514	19.2
1988	10,119	507	20.0
1989(e)	10,517	509	20.7

(e) – estimate
Sources: Federal Highway Administration; MH

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20 percent during the January-November 1989 period, from $76.6 billion to $60.8 billion.

If the trade balance is a casualty, domestic drilling is a beneficiary. After bottoming in mid-1986, the closely-watched count of active drilling rigs has been zig-zagging higher, and presently stands about 200 units, or 24 percent above year-earlier levels. While this looks good, it must be remembered that the number of active drilling rigs is still less than one quarter the number in operation during the peak year of 1981. Although some analysts attribute this to unenticing oil prices, even at current levels, and others cite Federal government restrictions on drilling in such promising, yet environmentally-fragile areas as the Arctic National Wildlife Refuge, all this does is underscore the point that large pools of readily recoverable oil nationwide are few, and that most domestic fields are well past their prime.

Conservation To The Rescue

Enhanced domestic drilling and shifts to alternative fuels may buy time, but are unlikely, by themselves, to remedy the widening domestic oil deficit. The ultimate success, or failure in this effort will largely hinge on the effectiveness of conservation efforts—on the highways, at home and in the office. And, here, the news is

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/10/90)	218,352	- 212	+ 12,088
New York City (1/17/90)	56,049	+ 643	+ 13,067
Commercial Paper (1/17/90)	534,167	+ 399	+ 74,907

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Commercial and Industrial Loan			
Nationwide (1/10/90)	321,039	- 1,183	+ 17,612
New York City (1/17/90)	83,580	- 329	+ 28,701
Total Loans and Leases Gross Adju			
Nationwide (1/10/90)	1,000,903	- 4,248	+ 70,699
New York City (1/17/90)	246,269	+ 3,000	+ 73,312

Financial Markets

	Friday 1/26/90	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.92%	- .07	- .68
180-Day Bills†	7.83	- .16	- .99
Longest Bills†	8.06	+ .07	- .90
Recent Issues:			
8⅛s 1/31/92 (When Issued)	8.26	NA	
7⅞s 12/31/93	8.36	+ .15	
7⅞s 11/15/99	8.48	+ .22	
8⅛s 8/15/19	8.54	+ .24	
Municipals:			
Bond Buyer—20 Bond Index* (1/25/90)	7.19%	+ .05	- .08
Blue List Total ($ Million)	$1,414	+ $ 74	+$ 109
30-Day Visible Supply ($ Million)	$1,488	- $100	+$ 379
Total	$2,902	- $ 16	+$ 488
Corporates:			
Moody's Aa Composite (1/25/90)	9.31	+ .02	- .43
30-Day Visible Supply ($ Million)	$3,181	+ $356	+$1,768
Stocks:			
Dow-Jones Averages:			
Industrials	2,559.23	- 118.67	+236.37
Transportation	1,101.17	- 52.81	+ 49.45
Utilities	218.06	- 3.71	+ 28.10
65 Stocks	963.34	- 40.71	+ 81.86
N.Y.S.E. Composite Index	180.21	- 7.35	+ 15.43
N.Y.S.E. Avg. Daily Vol. for Week (000's)	181,498	+ 9,236	- 15,526

*34% Taxable equivalent 10.90%. † Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/26/90	Week Ago
Overnight	8.06%	8.13%
1 month	8.19	8.25
3 month	8.25	8.25
6 month	8.31	8.31
1 year	8.50	8.50

FOREIGN EXCHANGE SPOT RATES New York Opening (1/26/90)	Currency Per U.S. $	Week Ago
Belgium	35.31	35.86
Canada	1.1936	1.1797
France	5.7535	5.8350
Germany	1.6585	1.7105
Italy	1258.50	1277.00
Japan	143.80	145.90
Mexico	2675.00	2668.00
Netherlands	1.9020	1.9315
South Korea	685.10	683.50
Switzerland	1.4930	1.5175
Taiwan	26.17	26.09
U.K.*	1.6585	1.6375

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (1/26/90) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/
	+0.6%	-3.4

far better, especially in the transportation sector which alone accounts for two-thirds of total oil consumption. As shown in the table, the U.S. passenger car fleet is now averaging nearly 21 miles per gallon, a 33 percent improvement over the past decade, and a better than 50 percent improvement since the early 1970s. What is more, additional gains are in store. At 27 miles per gallon, newly-produced, domestic automobiles alone are some 30 percent more fuel efficient than the existing passenger car fleet. This is a sign of things to come as older vehicles are scrapped.

While automobiles may be the most noteworthy, heightened conservation extends far further, to household appliances, new homes and in office buildings and factories, where energy-efficient machinery and structures have become a precondition for global competitiveness. Although the United States is still reckoned to be less energy efficient than Western Europe or Japan, this only provides the opportunity for further improvement. With the amount of oil required to produce $1 of real GNP already down 40 percent since 1973 and still dropping, OPEC's ability to reclaim the driver's seat for long remains problematic, notwithstanding the recent bulge in our oil import appetite.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/24/90	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	227.083	- 1.852	- 13.421
Loans to Depository Inst.	.379	+ .158	- .795
Float	1.056	+ .146	+ .988
Total Reserve Bank Credit	268.022	- 1.291	+ 6.989
Treasury Deposits with Federal Reserve Banks	5.930	+ 1.822	- 3.430
Currency in Circulation	255.231	- 2.114	+13.756
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	228.642	+ .074	+ .229
Member Bank Reserves:	1/24/90		
Total Reserves Held	61.136	- 2.420	- .202
Excess (Deficiency)	.958	- .164	- .014
Net Free Reserves	.686	- .116	- .213
Monetary Aggregates †		‡ % Change Since 3 Months Ago*	% Change Since Year Ago
M1 (1/15/90)	791.1	+ 6.0	+ 1.3
M2 (1/15/90)	3,218.3	+ 7.0	+ 5.0
M3 (1/15/90)	4,038.7	+ 4.0	+ 3.0
Domestic Nonfinancial Debt (3rd Q'89)	9,604.5	+ 7.5	+ 8.2

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 1/26/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.70%	7.65%	7.53%
* Federal Agencies	8.05	8.13	8.20
* Municipal Notes–High Grade (34% Taxable Equivalent)	8.33	8.71	8.71
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.20	8.25	8.35

‡ Finance Company Paper–Prime

5- 14 days	8.15%
15- 29 days	8.13
30- 59 days	8.10
60- 89 days	8.00
90-179 days	7.90
180-239 days	7.50
240-270 days	7.50

‡* Bankers' Acceptances

Feb.	8.17%
Mar.	8.10
Apr.	8.05
May	8.00
Jun.	7.97
Jul.	7.95

‡ Industrial Paper–Prime

30- 89 days	8.20%
90-120 days	8.13

†Federal Funds Effective Rate 8.19%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

Gross National Product (Current Dollars)*	4th	Q'89n	$ 5,337	$ 5,281	$ 5,113
Gross National Product (1982 Dollars)*	4th	Q'89n	$ 4,168	$ 4,163	$ 4,069
Percent Change, Annual Rate	4th	Q'89n	0.5	3.0	2.7
Change in Consumer Prices*	Dec	'89n	4.8%	4.8%	3.6%
Change in MH Cost of Living Index*	Dec	'89n	3.6%	4.8%	4.8%
Change in Producer Prices*	Dec	'89	8.4%	- 1.2%	4.8%
Civilian Employment (Thousands of Persons) †	Dec	'89	117,888	117,836	116,141
Unemployment as % of Civilian Labor Force †	Dec	'89	5.3%	5.3%	5.3%
Personal Income*	Nov	'89	$ 4,541	$ 4,503	$ 4,169
Leading Indicators Composite Index (1967=100) †	Nov	'89	144.7	144.5	144.1
Industrial Production Index (1977=100) †	Dec	'89n	142.8	142.3r	140.4
Net Change in Consumer Installment Credit †	Nov	'89	$ 4.24	$ 3.19	$ 5.28
U.S. Merchandise Trade Balance †	Nov	[illegible]	- $ 10.50	- $ 10.25r	- $ 10.55
Plant and Equipment Expenditures*	1st	[illegible]	$ 503.5(a)	$ 485.5(a)	$ 459.5
Private Housing Starts (Thousands of Units)*	De	[illegible]	1,235	1,342r	1,577
New Construction Expenditures*	N	[illegible]	$ 421.7	$ 415.6	$ 425.0
Total Business Inventories †	Nov	[illegible]n	$ 796.8	$ 793.2r	$ 746.4r
Total Business Sales †	Nov	'89n	$ 523.6	$ 520.0r	$ 501.4r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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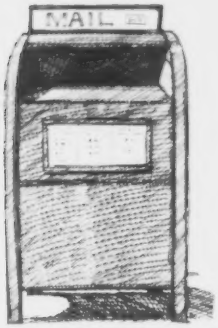

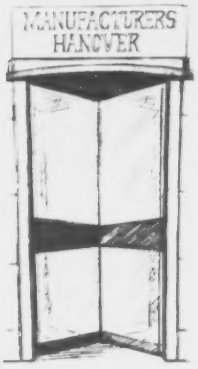

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